

RIO DE JANEIRO URBAN UPGRADING PROGRAM, “FAVELA-BAIRRO”– STAGE II

(BR-0250)

EXECUTIVE SUMMARY

Borrower:	Municipality of Rio de Janeiro	
Guarantor:	Government of the Federative Republic of Brazil	
Executing agency:	Secretaria Municipal de Habitação [Municipal Housing Department]	
Amount and source:	IDB (OC):	US\$180 million
	Local Counterpart:	US\$120 million
	Total:	US\$300 million
Financial terms and conditions:	Amortization period:	25 years
	Grace period:	4 years
	Amortization period:	4 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	currency pool
Objectives:	The objective of the program is to improve the quality of life of low-income groups living in marginal areas in the city. Basic infrastructure and social services will be provided and the beneficiaries' properties will be regularized, integrating these areas socially and urbanistically into the formal city.	
Description:	This second stage of the program will finance integrated projects to upgrade favelas and informal subdivisions in the municipality of Rio de Janeiro, combining investments in infrastructure with social development activities. The program will have the following components:	
	<ol style="list-style-type: none"> Integrated urban development (US\$211 million). Will finance basic infrastructure, and urban and social services in the two types of settlements covered by the program (slums and informal subdivisions). The following works and services will be financed: (i) <u>infrastructure</u>, including water supply, 	

- sanitary sewerage, storm drains, roads, electricity and street lighting, environmental protection (trees along streets, reforestation for erosion control and soil stabilization), trash collection, social facilities (community and childcare centers), public squares and sports grounds, and resettlement; (ii) community development, including actions to promote community participation in the planning, execution and consolidation of activities and follow-up on the completed projects; and (iii) property regularization, including technical and legal assistance in regularizing properties in favelas and unregistered subdivisions. The projects will be designed and carried out in close cooperation with the communities.
2. **Assistance for children and adolescents** (US\$25.5 million). This component will finance social assistance activities that enhances the physical, psychological and social development of children and teens under 18 who live in the favelas. The component includes: (i) childcare for infants and toddlers (daycare centers and alternative types of child care); (ii) school retention and enrichment (through food incentives, family outreach, cultural activities and sports, nutritional supplements and tutoring); (iii) reinforcement of preschool education; (iv) actions to address special problems or serve specific groups (prevention of teen pregnancy, support for the disabled, mutual assistance networks, support for families at risk and gender issues for children); and (v) assistance, shelter and family outreach for at-risk groups (drug addiction, prostitution, domestic violence). Most of these projects will be implemented by civil society organizations.
 3. **Job and income program** (US\$9 million). Includes: (i) specialized training, grants for specific vocational courses and technical assistance for self-employed professionals and microentrepreneurs; (ii) support for productive units; and (iii) improved education, involving continuing education programs for adults (based on video courses with instructor monitoring), which will cover adult literacy and primary and secondary school programs.
 4. **Institutional strengthening** (US\$4.5 million). Includes: (i) program monitoring and evaluation to assess the socioeconomic impact, cost effectiveness and sustainability of the program activities; (ii) a study on the extent of the problem of marginal areas in the city; (iii) training for the program's technical staff and for executing agencies and technical assistance for the municipal departments executing the program; and (iv) public information on the program for the

general public and the beneficiary communities.

**The Bank's
country and
sector strategy:**

The Bank's strategy in Brazil stresses the following: (i) promoting the reform and modernization of the federal and subnational levels of government; (ii) supporting the process of economic liberalization and modernization of the productive sectors; and (iii) addressing the problem of social inequity and poverty. The present program focuses mainly on the third priority, through investments in the poorest neighborhoods and social services for the very needy. Investments in reducing social inequity and promoting human capital, in addition to vocational training services, will help to boost the competitiveness of the city's economy and improve the investment climate and quality of the local workforce.

**Environmental
and social
review:**

The program's environmental and social impact is highly positive. Potential negative impacts will be eliminated or mitigated through the environmental and social procedures included in the Operating Regulations. CESI's recommendations have been incorporated into the program (paragraphs 4.19 to 4.23).

Benefits:

Program interventions will ensure that all the inhabitants of the beneficiary favelas and unregulated subdivisions (an estimated 230,000 people) will have potable water, sewerage and drainage services, road access, trash collection, public parks and recreational areas and other services. These services will have a significant effect on improving the quality of their lives, the physical condition of the areas and on the value of their properties. The main virtue of the program is its targeted investments aimed at reducing social inequities and preventing and reducing the risks associated with poverty for the most vulnerable groups (children, teens, female heads of households). Other benefits include a reduction in violence in these communities.

Human capital investments will be increased in this second stage to ensure that the interventions are effective. Some 13,900 children and teens and their families will be served under the child and adolescent component and another 84,000 will benefit from the job and income component. These benefits include a significant reduction in the social and health risks to which the inhabitants of the favelas are exposed and will improve their future prospects, education levels and ability to find work.

Risks:

1. *Coordination among the executing agencies* and their capacity to *implement innovative components* is a concern owing to the complex, integrated nature of the project. However, the execution methods and operating capacity of the main agencies have been successfully put to the test in stage one and in projects to assist children at risk, which will minimize this

aspect. A mechanism to coordinate the social components and the physical investments will be introduced and will work before and during implementation of each project, broadening the channels for horizontal communication.

2. *Dependence on community response* for the success of the activities. The preexisting situation of violence in some communities could pose a risk to projects in certain settlements. Although the risk is remote since the possibility of being excluded from the program is an incentive for the communities to overcome these problems, if necessary, the project will postpone its actions in difficult areas or replace those areas with others where the chances of success are greater, based on the list of priorities agreed upon with the borrower.
3. *Management weaknesses in civil society organizations* may pose a risk, which will be allayed through specific institutional strengthening activities intended to match their management capacity to the needs of the different types of projects. The technical and administrative supervisory activities performed by these organizations will also be significantly reinforced.

**Special
contractual
clauses:**

Prior to the first disbursement, the borrower will: (i) place the municipal decree regulating the program into effect, which establishes the responsibilities of the agencies that will participate in program execution; (ii) approve the Operating Regulations; and (iii) sign an agreement with the Companhia Estadual de Águas e Esgotos (CEDAE) (paragraph 3.2).

**Poverty-
targeting and
social sector
classification:**

This operation qualifies as a social equity enhancing project, as described in the key areas of Bank activity set forth in the report on the Eighth General Increase in Resources (document AB-1704) and as a poverty-targeted investment (PTI) (paragraph 4.31). The borrowing country will be using the 10 percentage points in additional financing (paragraph 4.32).

**Exceptions to
Bank policy:**

The guarantee contract does not include a guarantee by the federal government to provide the local counterpart for the program or to settle the borrower's obligation to perform under the contract for the proposed loan. The government guarantee does cover all the financial obligations under the loan contract and the obligation to perform activities within the sphere of competence of the guarantor. The financial analysis demonstrates that the borrower has the capacity to provide the counterpart (paragraphs 3.17 and 3.18).

Recognition of previous expenditures:

The Bank may recognize as part of the local counterpart funding up to US\$9 million equivalent in expenses incurred by the municipality for the preparation and execution of eligible projects up to 18 months prior to approval of the proposed operation by the Board of Executive5 Directors. The Bank may also recognize as part of the loan up to US\$3 million in expenses incurred up to 12 months prior to signature of the loan contracts.

Procurement:

Goods and services. In accordance with Bank policies, international competitive bidding will be used for contracts for works worth US\$5 million and over and for contracts for goods and related services worth US\$350,000 and over.

Consulting services. Consulting services will be selected and hired in accordance with Bank procedures, as established in Annex C to the loan contract. International competitive bidding will be required for contracts worth more than US\$200,000 equivalent. To hire the institutions that will deliver social services under the children and teens component and jobs and income component, annual prequalification will be used by preference, and prequalification by project, area or set of projects will be used by way of exception, in accordance with the procedures established in Annex C, except for negotiating the financial proposals, since the services have a preestablished fixed price. This arrangement is allowed under the Bank policy for hiring consulting services (document GN-1679).